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ECONOMIC IMPACT
of the Not-for-profit
Cultural Industry
in Massachusetts

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"Massachusetts is blessed with a wide variety of cultural institutions, which are attractive to residents and visitors alike. Besides helping the Commonwealth offer a quality of life which attracts and maintains an educated workforce, our cultural industry fosters creativity and cultural diversity in a period when our economy is becoming more competitive in the world marketplace."

John Gould
President and CEO
Associated Industries of Massachusetts

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CULTURE

is Big Business in Massachusetts

Massachusetts is home to 2,693 arts, humanities, and interpretive science organizations, 336 local cultural councils, and thousands of artists and humanists. Figures from a 1996 study indicate that the not-for-profit cultural industry has an annual economic impact of \$2.56 billion.

The abundant cultural resources in Massachusetts are essential to the state's quality of life and are a major lure for businesses to locate in the state and to attract and retain employees. Cultural activities play a significant role in attracting 28 million tourists each year, helping to make tourism the state's third largest industry. In many communities and regions, culture has become a focus of economic development.

Massachusetts' not-for-profit cultural industry:

Spent a total of \$1.44 billion.

\$712 million (50 percent) for employee compensation

\$501 million (35 percent) for other operating expenses

\$168 million (12 percent) for fees for contracted services

\$58 million (4 percent) for capital expenditures

87 percent of the \$1.44 billion was spent on persons and vendors within the state

Provided 45,368 jobs (13,909 full-time).

Had 45,086,028 admissions to its events.

about seven times the population of the entire state

30,798,326 (68 percent) were paid admissions

13,000,000 (29 percent) of admissions were non-state residents

Received \$1.43 billion in income.

\$730 million (51 percent) in earned income

\$421 million (29 percent) from foundation, corporate, and individual donations

\$118 million (8 percent) from federal, state, and local government donations

\$159 million (11 percent) from interest and transfers from endowments

Collected and/or paid \$59 million in federal income and social security taxes, and \$17 million in state income and sales taxes.

Benefited from the help of 98,350 volunteers, who contributed 2.1 million unpaid hours of assistance.

Had a total economic impact of \$2.56 billion, including indirect and induced spending of \$1.12 billion.



INTRODUCTION

Anyone who enjoys attending concerts, visiting museums, going to community festivals or listening to poetry readings understands the powerful effect culture has on people's hearts and minds. Less apparent is the fact that culture has a direct impact on the economy of Massachusetts — through spending by the not-for-profit cultural industry and audiences.

This report examines the economic impact of Massachusetts' not-for-profit cultural industry in 1996. Though we don't often think of groups of similar not-for-profit cultural organizations as an industry, they nonetheless perform the same basic functions as for-profit firms.

In 1996 the total economic impact of the not-for-profit cultural industry totaled \$2.56 billion. This industry provides jobs, purchases services, and makes products that are in high demand. Total admissions for 1996 are conservatively estimated at 45 million. The cultural industry plays a key role in attracting 28 million visitors to Massachusetts each year, helping make tourism the state's third largest industry. Cultural resources are also a major lure for businesses to locate in the Bay State and to attract and retain employees. In many communities and regions, culture has become a focus of economic development.

There are also intangibles that go beyond the impact of the data. Our cultural resources are important in other ways: educating us, elevating our spirits, enriching our lives. Massachusetts is blessed with diversity and quality in its cultural organizations — from crafts organizations and historical societies to internationally recognized theater troupes, musical organizations, and dance companies. In cities and towns across the Commonwealth, cultural organizations make possible a range of experiences: a child learning to dance; a teenager trading a weapon for a paint brush; a class discovering the ecosystem in their neighborhood; an elder passing on her heritage through an oral history; a community gathered at a town common for an arts festival. Quite simply, the cultural industry is an integral part of the health of the Commonwealth.

RESEARCH METHODOLOGY

The universe of Massachusetts cultural organizations analyzed for this study consists of 3,029 organizations filing non-profit tax returns with the IRS, for which it was possible to obtain income data for the most recent fiscal year. These include arts, humanities, and science organizations and local cultural councils. The detailed information in this report is based on a direct mail survey of the state's cultural organizations, of which 373 completed and returned a questionnaire requesting information on spending, income, personnel, and audiences during the most recent fiscal year.

Locations of Cultural Organizations included in this Study

Note: one dot may represent more than one organization



EMPLOYMENT

As employers, cultural organizations have particular characteristics that should be kept in mind while reviewing the following information. Such organizations tend to be labor-intensive; that is, they make heavy use of employees relative to other factors, such as raw materials, that are used in the manufacture of products. Essentially, most cultural organizations' "products" are services. And unlike industries that produce goods, cultural organizations can't increase worker efficiency by buying better equipment or by figuring out ways to make better use of the equipment they already have.

Not surprisingly, the labor-intensive nature of such organizations makes them very important employers in Massachusetts. Throughout the state, more than 45,000 jobs are supported by cultural organizations — including 15,000 jobs for artists, humanists, and science educators. More than 92 percent of these jobs are held by state residents. On average, cultural organizations devote about 50 percent of their budgets to salaries and fringe benefits. The average organization supports 15 full- and part-time jobs. The average large budget organization supports 64 full-time and 78 part-time jobs, and has a payroll of \$4.4 million.

The majority of jobs in the cultural sector (69 percent) are part-time, as shown in the table below. The prevalence of part-time employment is due both to the nature of the jobs available in this industry and the relatively small size of many organizations. For example, dancers, musicians and actors can be employed on a full-time basis only by the state's largest performing arts organizations. Other personnel in smaller organizations often work part-time or as volunteers out of budgetary necessity. Artists are often underemployed or are splitting time between two occupations; though many included in the table work part-time, it is clear that these organizations are a major source of employment.



These issues can be understood more clearly through a comparison of the distribution of jobs and volunteer hours between large budget organizations and small budget organizations in our sample. While 55 percent of those employed by large budget organizations are part-time, 81 percent of those employed by small budget organizations have this status. There are roughly three volunteers for every paid employee in small budget organizations; the ratio is one to one in large budget organizations.

Employment And Volunteer Hours, Massachusetts Cultural Organizations, 1996

Income Class	Full-Time	Part-Time	Total	% Mass. Residents	Volunteers	Volunteer Hours
\$1,000,000 & OVER 143 cultural organizations	9,209 (818)	11,221 (2,929)	20,430 (3,747)	91.1%	19,543	550,264
UNDER \$1,000,000 2,886 cultural organizations	4,699 (790)	20,238 (10,620)	24,938 (11,410)	93.4%	78,807	1,573,832
TOTAL 3,029 cultural organizations	13,908 (1,608)	31,459 (13,549)	45,368 (15,157)	92.3%	98,350	2,124,096

Number of artists and humanists in parentheses

SPENDING

The state's cultural organizations collectively spent \$1.44 billion in 1996. The charts on page 7 provide a breakdown.¹ As noted, the single largest component of this spending (50 percent) was employee compensation. Operating expenses accounted for 35 percent of spending.

The importance of the state's largest cultural organizations in terms of total spending is impressive. The survey identified 143 organizations with budgets in excess of \$1 million. These organizations, just under 5 percent of the total number, accounted for 88 percent of total expenditures.

The share of spending devoted to employee compensation closely matches that found in the 1978 survey of 51 percent. However, that share fell to 35 percent in the 1988 survey. In 1988, a much larger allocation to capital expenditures (19 percent) was reported, causing other spending percentages to be relatively smaller.

Organizations were also asked what percentage of spending was on employees and vendors who are state residents. Overall, 87 percent of spending was made in-state. The variation between large and small budget organizations on this measure was very slight.

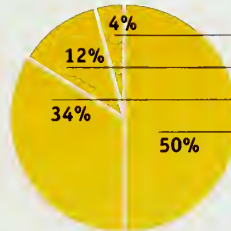
¹Note that, unlike other aggregate figures in this report, which are projections to the population of 3,029 organizations from our survey sample of 373, aggregate spending and income are based on survey plus IRS data for all 3,029 organizations. Only income is reported in the IRS file; this was used as a proxy for spending for organizations which were not in our survey sample.

Expenditures By Massachusetts Cultural Organizations, 1996

(Dollar Figures In Thousands)

INCOME \$1,000,000 & OVER

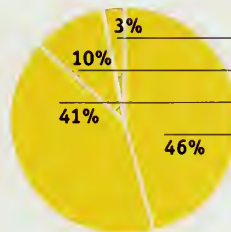
143 cultural organizations



Capital Expenses	52,168
Outside Fees	149,775
Operating Expenses	427,158
Wages & Fringes	629,382
Total	\$1,258,483
% Spent in Mass.	86.4%

INCOME UNDER \$1,000,000

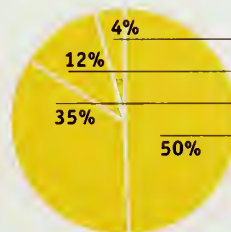
2,886 cultural organizations



Capital Expenses	5,325
Outside Fees	18,238
Operating Expenses	73,538
Wages & Fringes	82,494
Total	\$179,595
% Spent in Mass.	88%

TOTAL INCOME

3,029 cultural organizations



Capital Expenses	57,493
Outside Fees	168,013
Operating Expenses	500,969
Wages & Fringes	711,876
Total	\$1,438,078
% Spent in Mass.	86.6%

INCOME

The aggregate income of the state's cultural organizations is \$1.43 billion. Total income can be broken into three components: *earned*, consisting of direct sales of tickets and subscriptions, touring revenues, sales of art works, tuition, and sales of ancillary services; *contributed*, consisting of income donated by individuals, foundations, corporations, and governments at all levels; and *endowment*, consisting of income and other transfers from endowment sources.

For the state's 3,029 organizations, earned income constituted \$730 million, or 51 percent of the total; contributed income constituted \$539 million, or 38 percent of the total; and endowment income constituted \$159 million, or 11 percent. Of the total income, 37.7 percent came from out-of-state sources.

These income shares closely approximate those found in a 1978 survey: 48 percent earned, 42 percent contributed, and 10 percent endowment. In 1988 contributed income was 44 percent, but earned was 35 percent and endowment was 21 percent.²

Within the contributed income category, a major change has taken place over the past two decades. Over this period, while the share of total income from contributions has remained relatively constant, the percentage of government contributions has fallen, but has been almost literally matched by a growth in the percentage of private contributions. In 1978, 1988 and 1996, government contributions as a percentage of total income have fallen from 20 percent to 19 percent to 8 percent. By comparison, private contributions have risen from 22 percent to 25 percent to 30 percent.³ However, this has not closed the gap.

Clearly, the much reported belt-tightening by governments at all levels with respect to aid to the arts, humanities and interpretive sciences in recent years is in evidence. However, foundation, business, and individual giving has increased to offset significantly the decline in government support. In addition, many cultural organizations have taken an increasingly "entrepreneurial" approach and have identified new ways to generate more income from direct sales of their main cultural "product" and of collateral materials such as mugs, T-shirts, calendars, recordings, and so on.

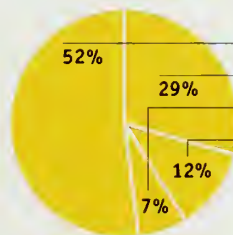


Income Of Massachusetts Cultural Organizations, 1996

(Dollar Figures In Thousands)

INCOME \$1,000,000 & OVER

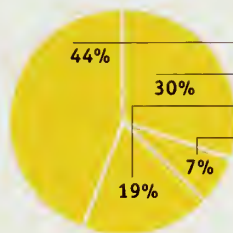
143 cultural organizations



Earned Income	649,507
Private Contribution	365,771
Government Contribution	84,050
Endowment	146,958
Total	\$1,246,286
% from Outside Mass.	36.9%

INCOME UNDER \$1,000,000

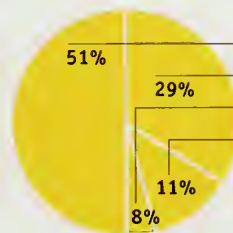
2,886 cultural organizations



Earned Income	80,260
Private Contribution	55,078
Government Contribution	34,101
Endowment	12,252
Total	\$181,691
% from Outside Mass.	43.6%

TOTAL INCOME

3,029 cultural organizations



Earned Income	729,767
Private Contribution	420,849
Government Contribution	118,151
Endowment	159,210
Total	\$1,427,977
% from Outside Mass.	37.7%

²The 1988 income distribution was heavily influenced by some large endowment transfers made by visual arts organizations in that year. Endowment income constituted 51 percent of all income for visual arts organizations in 1988.

³Another perspective on this trend is to note that, between 1988 and 1996, estimated total government contributions to state cultural organizations grew by 54 percent. By comparison, private contributions grew by 324 percent, and total income grew by 257 percent.

ADMISSIONS

The survey asked cultural organizations to report on paid and unpaid admissions during the year. Admission figures cover all reported attendance or visits to artistic performances, museums, historic sites, and other events. Thus the same individual can be responsible for many admissions during a year, even to the same event or performance series.

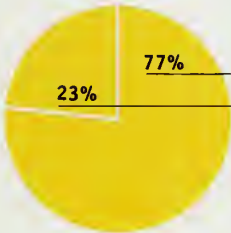
The survey estimates total admissions of more than 45 million in 1996 — seven times the population of the state. Major contributions to this total are made by several of the state's largest museums, historic sites, and performing organizations, which reported annual admissions in excess of half a million. These admissions statistics place these individual organizations in the same range as many of the state's professional sports teams, particularly the Celtics, Bruins, and Patriots.

Massachusetts cultural organizations serve as a magnet for tourism. Just under 30 percent (13,000,000) of total admissions are non-state residents. Large budget organizations attract roughly one-third of their admissions from out of state.

About two-thirds of admissions are paid. This percentage is higher for large budget organizations, for whom about three-fourths are paid.

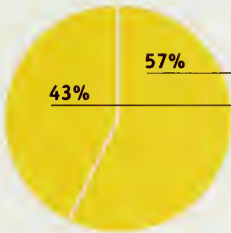
Admissions To Massachusetts Cultural Organization Events And Presentations, 1996

INCOME \$1,000,000 & OVER
143 cultural organizations



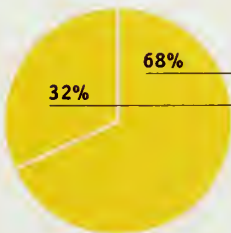
Paid Admissions 19,566,481
Unpaid Admissions 5,940,620
Total \$25,507,101
% from Outside Mass. 32.6%

INCOME UNDER \$1,000,000
2,886 cultural organizations



Paid Admissions 11,231,845
Unpaid Admissions 8,347,082
Total \$19,578,927
% from Outside Mass. 23.8%

TOTAL INCOME
3,029 cultural organizations



Paid Admissions 30,798,326
Unpaid Admissions 14,287,702
Total \$45,086,028
% from Outside Mass. 28.8%

TAXES

Not-for-profit cultural organizations do not pay taxes, but they create significant tax revenues. In the survey, information was requested on the amount of federal taxes collected and/or paid and the amount of state taxes collected and/or paid. Federal taxes include income taxes and employer social security contributions. State taxes include income taxes and sales taxes. (State sales taxes are collected primarily from concession sales by these organizations.)

Overall, the state's cultural organizations report \$58.7 million in federal taxes and \$17.3 million in state taxes. About 85 percent of all taxes paid/collected emanate from large budget organizations.

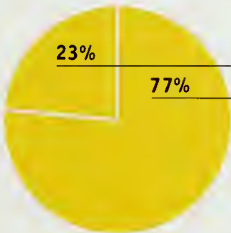


State And Federal Taxes Collected Or Withheld By Massachusetts Cultural Organizations, 1996

(Dollar Figures In Thousands)

INCOME \$1,000,000 & OVER

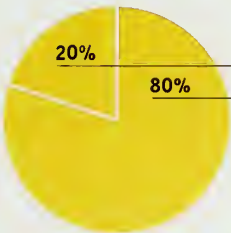
143 cultural organizations



State Taxes	15,046
Federal Taxes	49,434
Total	\$64,480
% State Taxes	23.3%

INCOME UNDER \$1,000,000

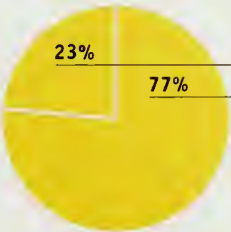
2,886 cultural organizations



State Taxes	2,290
Federal Taxes	9,313
Total	\$11,603
% State Taxes	19.7%

TOTAL INCOME

3,029 cultural organizations



State Taxes	17,336
Federal Taxes	58,747
Total	\$76,083
% State Taxes	22.8%

NOTE: State taxes include sales and income; federal taxes include income and employer contributions to social security.

ECONOMIC IMPACT

To evaluate total economic impact, this report estimates the additional effects of indirect and induced spending caused by the initial spending of the state's cultural organizations, and adds that amount to the initial spending.⁴ Economists argue that only income brought into the region has an economic impact; income that cultural organizations receive from state residents would have been spent inside the state (on other entertainment, perhaps) if these cultural organizations did not exist. This report takes a conservative approach and applies these "multiplier effects" of cultural organization spending to only that percentage of spending financed by income received from out-of-state sources.

It was noted in the section on income that 37.7 percent of total income received by Massachusetts cultural organizations came from out-of-state sources. Thus, applying a multiplier provided by the U.S. Department of Commerce of 2.0509 for Massachusetts firms in the cultural sector⁵ to the 37.7 percent of spending by out-of-state sources (\$542,155,000) yields an additional amount of indirect and induced re-spending of \$1,116,298,000. The total economic impact of the state's cultural organizations can then be estimated at \$2,554,375,000.

⁴The indirect impact refers to further spending by local firms initiated by the direct spending. The induced impact refers to spending by households out of additional income created by the direct and indirect spending.

⁵The Bureau of Economic Analysis of the Commerce Department has published a set of Regional Industrial Multipliers. The one used above is the same used to estimate indirect and induced spending in the 1988 study of the New England region's cultural organizations.



THE IMPACT OF AUDIENCE SPENDING

One important element that is missing from this study is information on the related spending by audiences of cultural events. Related spending includes money spent on restaurants, hotels, motels, gift shops, gasoline vendors, and transportation systems. (The spending on admissions is captured in the admissions income data reported by the organizations themselves.) Audience surveying is costly and, to give reasonably accurate estimates for an entire state, would entail sampling the audiences of numerous organizations throughout the state.

Other studies have found that the economic impact of audience spending is generally in the same range as the organizational spending itself. A recent study of cultural, sport, and entertainment organizations in Hartford, Connecticut demonstrates this point. Total organizational spending was \$89 million, and spending by their audiences was \$77 million.⁶

The study of audience spending in Massachusetts in 1988 indicated that the amount the average audience member spent while attending a cultural event was \$25.17. Comparable spending by Massachusetts audience members today would generate an additional \$1 billion of spending in the state. In addition, spending made by the 28.8 percent of non-state admissions would have generated indirect and induced spending effects, which would make the economic impact of audience spending significantly greater than its direct spending.

⁶Jahn J. Sullivan and Gregory H. Wassall, *The Economic Impact of the Arts, Sports and Entertainment and Sports Industries on the City of Hartford* (Hartford Downtown Council, 1997).

A MORE DETAILED COMPARISON WITH PREVIOUS SURVEYS

This survey has begun the practice of defining the database of all Massachusetts arts, humanities, and interpretive sciences organizations as the population from which to estimate the economic attributes found in this report. In the previous two reports, the population was defined as those organizations tracked by the Massachusetts Council on the Arts and Humanities, a predecessor agency to the Massachusetts Cultural Council. The “population” in 1978 thus constituted 669 organizations in 1978, and 630 organizations in 1988. Using the more comprehensive IRS database, the population “grew” to 3,029 in 1996. Thus comparisons of aggregate 1996 data to comparable findings in the 1988 and 1978 surveys must be with this change in mind.⁷

Changes in employment, spending and admissions over the three surveys are shown in the table below. Estimated total jobs and admissions have increased by roughly 130 percent over 1988; spending and income have increased by roughly 260 percent. By comparison, between 1978 and 1988, employment grew by 42 percent, admissions grew by 74 percent, and income and spending grew by roughly 250 percent.

To what extent is the growth between 1988 and 1996 caused by an increase in the population of organizations? Most of the growth in the financial aggregates between 1988 and 1996 was caused by growth in organizations whose budgets and admissions were represented in both surveys. The exact amount of overall growth attributable to growth in just these organizations cannot be stated precisely, since in each previous survey exact financial data was received from only a sample of the total number, and projections were made from that sample. However, some evidence can be brought to bear on this issue.

First, a preliminary set of projections was made using only those organizations found in the Massachusetts Cultural Council’s database (which in 1996 constituted 968 organizations). Projections from this database included 30,100 jobs, spending and income of just under \$1.2 billion, and admissions of 34 million. These numbers imply a growth in income and spending since 1988 of 200 percent, employment growth of 50 percent, and admissions growth of 70 percent.

⁷A principal reason for using the IRS database as the population is to make such year-to-year comparisons in future years more interpretable.

Second, analysis of the additional organizations found in the IRS database shows that many of them are very small, with budgets under \$10,000. These organizations attract admissions and often hire mostly part-time workers, but the numbers above demonstrate that they, even in large numbers, do not affect total spending and income in a significant way.

Comparison of Massachusetts Cultural Organizations Survey Results

(Dollar Figures In Thousands)

Survey Year	Population/Sample	Total Jobs	Total Spending	Total Income	Total Admissions
1996	3,029/373*	45,368	\$1,438,078	\$1,427,976	45,086,027
1988	630/229	19,633	402,331	400,128	19,719,757
1978	668/161	13,818	114,453	118,342	11,328,000

*In 1996, income data were available for all 3,029 organizations.





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Inside back cover: Boston Symphony Orchestra; Walter H. Scatt